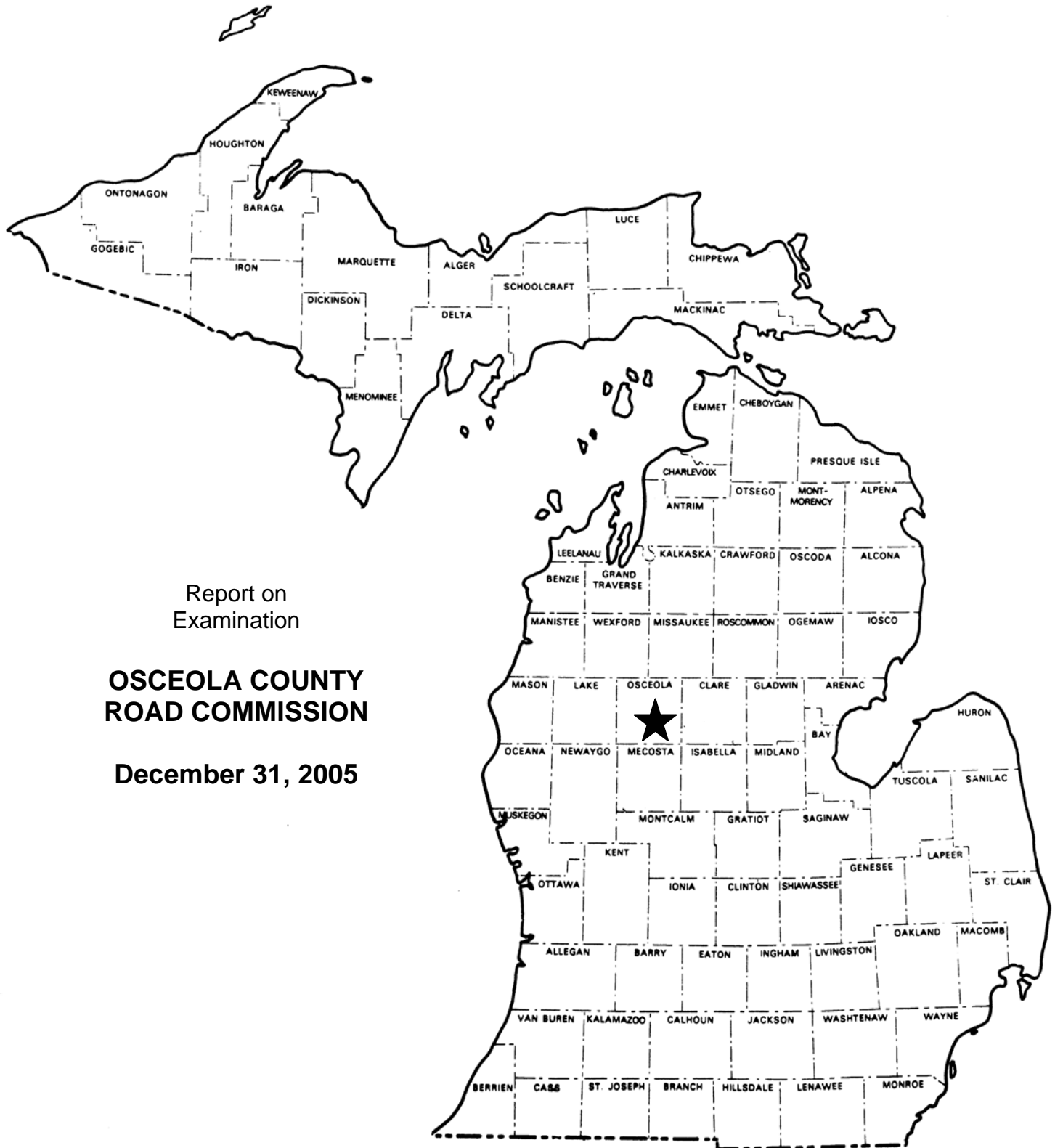


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**OSCEOLA COUNTY
ROAD COMMISSION**

December 31, 2005

OSCEOLA COUNTY ROAD COMMISSION
BOARD OF ROAD COMMISSIONERS

Stanley Gregory
Chairman

William Lehman
Vice Chairman

Donald Lewis
Member

William Huss
Clerk

Kenneth Logan
Manager

COUNTY POPULATION--2000
23,197

STATE EQUALIZED VALUATION--2005
\$888,906,029



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 19, 2006

Osceola County Road Commission
Board of County Road Commissioners
4737 Makwa Drive
Hersey, Michigan 49639

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Osceola County Road Commission, a component unit of Osceola County, Michigan, as of and for the year ended December 31, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Osceola County Road Commission as of December 31, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 10 and the budget comparison information included in Exhibits G and H are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board and accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2006, on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the financial statement amounts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Osceola County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits I through K are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in black ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

OSCEOLA COUNTY ROAD COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
MANAGEMENT’S DISCUSSION AND ANALYSIS	1
 BASIC FINANCIAL STATEMENTS--GOVERNMENT-WIDE/GOVERNMENTAL FUND FINANCIAL STATEMENTS	
EXHIBIT A--Statement of Net Assets	11
EXHIBIT B--Statement of Activities	12
EXHIBIT C--Balance Sheet	13
EXHIBIT D--Reconciliation of the Balance Sheet Fund Balance to the Statement of Net Assets	14
EXHIBIT E--Statement of Revenues, Expenditures and Changes in Fund Balance.....	15
EXHIBIT F--Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statements of Activities.....	16
NOTES TO FINANCIAL STATEMENTS	17
 REQUIRED SUPPLEMENTARY INFORMATION	
EXHIBIT G--Schedule of Revenues--Budget and Actual Budgetary Comparison Schedule	32
EXHIBIT H--Schedule of Expenditures--Budget and Actual Budgetary Comparison Schedule	33
 SUPPLEMENTAL SCHEDULES	
EXHIBIT I--Analysis of Changes in Fund Balances.....	34
EXHIBIT J--Analysis of Revenues	35
EXHIBIT K--Analysis of Expenditures	36
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	37

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Osceola County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities reports information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned on the prior page, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's major fund begins below. The fund financial statements begin on page 13 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 15.34%, or \$1,383,020, from \$9,016,217 to \$10,399,237 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The restricted net assets increased by \$260,665 during 2005. The primary reason for the change was a decrease in routine maintenance expenses.

The investment in capital assets-net of related debt increased by \$1,122,354. The increase in net assets is primarily the result of reporting infrastructure of \$1,218,534 for the year 2005. The depreciation for the current year's infrastructure will be depreciated in the subsequent year. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

Net assets as of year ended December 31, 2005 are as follows:

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 1,339,981	\$ 1,948,251	\$ 608,270	45.39%
Capital Assets	<u>8,365,468</u>	<u>13,267,006</u>	<u>4,901,538</u>	<u>58.59%</u>
Total Assets	<u>9,705,449</u>	<u>15,215,257</u>	<u>5,509,808</u>	<u>56.77%</u>
Liabilities				
Current	100,980	423,352	322,372	319.24%
Noncurrent	<u>588,252</u>	<u>4,392,668</u>	<u>3,804,416</u>	<u>646.73%</u>
Total Liabilities	<u>689,232</u>	<u>4,816,020</u>	<u>4,126,788</u>	<u>598.75%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	8,082,107	9,204,462	1,122,355	13.89%
Restricted	<u>934,110</u>	<u>1,194,775</u>	<u>260,665</u>	<u>27.91%</u>
Total Net Assets	<u><u>\$9,016,217</u></u>	<u><u>\$10,399,237</u></u>	<u><u>\$1,383,020</u></u>	<u><u>15.34%</u></u>

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2005 are as follows:

	Governmental Activities			
	2004	2005	Variance	%
Program Revenue				
License and Permits	\$ 9,275	\$ 10,025	\$ 750	8.09%
Federal Grants	23,390		(23,390)	-100.00%
State Grants	3,814,909	4,221,959	407,050	10.67%
Contributions From Local Units	335,578	429,774	94,196	28.07%
Investment Earnings	13,820	50,963	37,143	268.76%
Charges for Services	46,283	1,454	(44,829)	-96.86%
Donations From Private Sources		31,519	31,519	100.00%
Reimbursements		30,399	30,399	100.00%
General Revenue				
Gain on Equipment Disposal	253,444	10,439	(243,005)	-95.88%
Total Revenue	4,496,699	4,786,532	(1,662,433)	-36.97%
Expenses				
Public Works	3,650,345	3,214,986	435,359	11.93%
Interest Expense	11,290	188,526	(177,236)	-1569.85%
Total Expenses	3,661,635	3,403,512	258,123	7.05%
Increase in Net Assets	835,064	1,383,020	547,956	65.62%
Beginning Net Assets	8,181,153	9,016,217	835,064	10.21%
Ending Net Assets	<u>\$ 9,016,217</u>	<u>\$ 10,399,237</u>	<u>\$ 1,383,020</u>	<u>15.34%</u>

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the General Operations Fund increased \$285,898 as compared to a decrease of \$355,155 in the fund balance for the year ended December 31, 2004. Total revenues were \$8,716,531, an increase of \$4,219,832 as compared to last year. This increase in revenues resulted primarily from the construction of two building facilities that were realized as capital lease proceeds, additional Federal Aid exchange funds and other contributions. Total expenditures were \$8,430,634, a decrease of \$3,578,780 as compared to last year. The increase in expenditures is due primarily to the significant increase in capital outlay that relates to the two building facilities.

The Road Commission Board strives to hold a fund balance that allows for as many dollars as possible to be expended on road maintenance while also holding the balance where there is an environment for the smooth financial operations of the Road Commission.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in the Operating Fund are as follows:

	12/31/04 Operating Fund	12/31/05 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
License and Permits	\$ 9,275	\$ 10,025	\$ 750	8.09%
Federal Grants	23,390		(23,390)	-100.00%
State Grants	3,814,909	4,221,959	407,050	10.67%
Contributions From Local Units	335,578	429,774	94,196	28.07%
Charges for Services	46,283	1,454	(44,829)	-96.86%
Interest and Rents	13,820	50,963	37,143	268.76%
Other Revenue	253,444	72,357	(181,087)	-71.45%
Total Revenues	<u>4,496,699</u>	<u>4,786,532</u>	<u>289,833</u>	<u>6.45%</u>
Expenditures				
Public Works	4,424,628	4,122,766	301,862	6.82%
Net Capital Outlay	358,649	3,968,525	(3,609,876)	-1006.52%
Debt Service	68,577	339,343	(270,766)	-394.84%
Total Expenditures	<u>4,851,854</u>	<u>8,430,634</u>	<u>(3,578,780)</u>	<u>-73.76%</u>
Excess of Expenditures Over Revenues	<u>(355,155)</u>	<u>(3,644,102)</u>	<u>(3,288,947)</u>	<u>-926.06%</u>
Other Financing Sources				
Proceeds From Lease		3,930,000	3,930,000	0.00%
Total Other Financing Sources	<u>-</u>	<u>3,930,000</u>	<u>3,930,000</u>	<u>100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(355,155)</u>	<u>285,898</u>	<u>641,053</u>	<u>180.50%</u>
Fund Balance--Beginning	1,594,156	1,239,001	(355,155)	-22.28%
Fund Balance--Ending	<u>\$ 1,239,001</u>	<u>\$ 1,524,899</u>	<u>\$ 285,898</u>	<u>23.07%</u>

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005, excluding the new buildings capital lease proceeds, was \$133,007 or 3% less than the original budget. Actual revenue recognized during 2005 was \$65,539 more than the final amended budget.

The final amended expenditure budget for 2005, excluding the new buildings capital outlay expenditures (\$3,750,000) was \$360,311 less than the original budget. The primary reasons for this decrease were: 1) certain primary road preservation improvements scheduled for 2005 were delayed to 2006; 2) less funds were spent on routine maintenance than originally expected; and 3) a local road maintenance project involving safety grant funds was also delayed until 2006.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2005, the Road Commission had invested \$13,267,006 in capital assets. This amount represents a net increase (including additions and deductions) of \$4,901,538 or 58.59% as follows:

	2004	2005	Total Percentage Change 2004/05
Capital Assets Not being Depreciated			
Land and Improvements	\$ 65,662	\$ 65,662	0.00%
Infrastructure Land Improvements	4,275,492	5,055,495	18.24%
Subtotal	4,341,154	5,121,157	17.97%
Capital Assets Being Depreciated			
Buildings	635,119	4,656,674	633.20%
Equipment	5,087,302	5,415,994	6.46%
Depletable Assets	196,825	226,825	15.24%
Infrastructure	2,449,783	2,888,314	17.90%
Subtotal	8,369,029	13,187,807	57.58%
Total Capital Assets	12,710,183	18,308,964	44.05%
Total Accumulated Depreciation	(4,344,715)	(5,041,958)	16.05%
Total Net Capital Assets	<u>\$ 8,365,468</u>	<u>\$13,267,006</u>	<u>58.59%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$1,218,534. The infrastructure recorded, during 2005, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 67,979
Various Resurfacing Projects and Related Land/Right-of-Way	1,150,555
Buildings	4,021,555
Trucks/Equipment	408,726
Depletable Assets	30,000
Administrative and Engineering	<u>13,620</u>
Total Additions	<u><u>\$ 5,692,435</u></u>

There was a new installment purchase agreement entered into during 2005 for \$180,000 and a capital lease with the county for the new facilities for \$3,750,000. All other equipment was acquired with Road Commission funds. During 2005, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$93,654, related depreciation of \$93,654, and net book value of \$0.

Debt

At year end, the Road Commission had \$387,545 in installment purchase agreements versus \$283,361 last year, an increase of \$104,184 or 36.77%. The new capital lease for the new facilities is shown below:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	\$283,361	\$ 387,544	\$ (104,183)	-36.77%
Capital Lease Agreement		<u>3,675,000</u>	<u>(3,675,000)</u>	<u>-100.00%</u>
Total	<u>\$283,361</u>	<u>\$4,062,544</u>	<u>\$(3,779,183)</u>	<u>-1333.70%</u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note G to the financial statements.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derived approximately 72% of its revenues from Michigan's fuel tax collected in 2005. We are not projecting an increase in the Michigan Transportation Funds (MTF) due to the trend of the past two year's receipts and the continued increase in fuel costs. The Road Commission received approximately 9% of its revenues from township contributions during 2005. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. Township contributions for 2006 are anticipated to be slightly more than those received in 2005.

As stated in the budgetary highlights section, the Road Commission Board strives to hold a solvent fund balance. Although the original 2005 budget projects another year of expenditures greater than revenues, the projected surplus at year end is sufficient for the solvency of the Road Commission.

The board is challenged in its budgeting, in that revenues, namely MTF funds, have not grown to keep pace with the significant increases in costs to run the Road Commission.

The board realizes and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Osceola County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Osceola County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Osceola County Road Commission's administrative offices at (231) 832-5171.

OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

ASSETS

Cash	\$ 968,688
Investments	467
Receivables	
Michigan Transportation Fund	501,858
Due on County Road Agreements	175,693
Due from County	29,075
Inventories	
Road Materials	158,254
Equipment Parts and Materials	114,216
Capital Assets (Net of Accumulated Depreciation)	<u>13,267,006</u>
Total Assets	<u>15,215,257</u>

LIABILITIES

Current Liabilities	
Accounts Payable	393,460
Due to State of Michigan	163
Accrued Liabilities	21,778
Performance Bonds Payable	2,614
Deferred Revenue	
Forest Road Funds	5,337
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	95,266
Installment Purchase Agreements Payable--Due in More Than One Year	292,278
Capital Lease Payable--Due Within One Year	75,000
Capital Lease Payable--Due in More Than One Year	3,600,000
Vested Employee Benefits Payable	<u>330,124</u>
Total Liabilities	<u>4,816,020</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	9,204,462
Restricted for County Roads	<u>1,194,775</u>
Total Net Assets	<u>\$10,399,237</u>

The Notes to Financial Statements are an integral part of this statement.

OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 928,539
Local Road Maintenance	1,544,205
Net Equipment Expense	130,572
Net Administrative Expense	300,916
Infrastructure Depreciation	285,521
Compensated Absences	25,233
Interest Expense	188,526
	<hr/>
Total Program Expenses	3,403,512
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	10,025
Charges for Services	1,454
Operating Grants and Contributions	
State of Michigan Transportation Funds	3,415,121
Investment Earnings	50,963
Capital Grants and Contributions	
State Grants	806,838
Contributions From Local Units	429,774
Donations From Private Sources	31,519
Reimbursements	30,399
	<hr/>
Total Program Revenue	4,776,093
	<hr/>
Net Program Revenue	1,372,581
	<hr/>
General Revenue	
Gain on Equipment Disposal	10,439
	<hr/>
Total General Revenues	10,439
	<hr/>
Change in Net Assets	1,383,020
	<hr/>
Net Assets	
Beginning of Year	9,016,217
	<hr/>
End of Year	\$10,399,237
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2005**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

General
Operating
Fund

ASSETS

Cash	\$ 968,688
Investments	467
Receivables	
Michigan Transportation Fund	501,858
Due on County Road Agreements	175,693
Due From Primary Government	29,075
Inventories	
Road Materials	158,254
Equipment Parts and Materials	114,216
Total Assets	<u>\$ 1,948,251</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 393,460
Due to State	163
Accrued Liabilities	21,778
Performance Deposits Payable	2,614
Deferred Revenue--Forest Road Funds	5,337
Total Liabilities	<u>423,352</u>
Fund Equities	
Reserved for Inventory	272,470
Reserved for Facility Construction	29,075
Fund Balance--Unreserved and Undesignated	1,223,354
Total Fund Equities	<u>1,524,899</u>
Total Liabilities and Fund Equities	<u>\$ 1,948,251</u>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2005**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,524,899
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,267,006
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(4,392,668)</u>
--	--------------------

Net Assets of Governmental Activities	<u><u>\$10,399,237</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2005

EXHIBIT E

	Operating Fund
Revenues	
Permits	\$ 10,025
State Grants	4,221,959
Contributions From Local Units	429,774
Charges for Services	1,454
Interest and Rents	50,963
Other Revenue	72,357
	<hr/>
Total Revenues	4,786,532
	<hr/>
Expenditures	
Public Works	3,617,390
Capital Outlay	4,473,901
Debt Service	339,343
	<hr/>
Total Expenditures	8,430,634
	<hr/>
Excess of Revenues Over (Under) Expenditures	(3,644,102)
Other Financing Sources (Uses)	
Capital Lease Proceeds	3,750,000
Installment Lease Proceeds	180,000
	<hr/>
Total Other Financing Sources (Uses)	3,930,000
	<hr/>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	285,898
Fund Balance--January 1, 2005	1,239,001
	<hr/>
Fund Balance--December 31, 2005	\$ 1,524,899
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ 285,898

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. 4,901,538
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the (3,779,183)
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets.

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Increase in compensated absences and decrease in
interest expense) (25,233)

Change in Net Assets of Governmental Activities \$ 1,383,020

The Notes to Financial Statements are an integral part of this statement.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Osceola County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Osceola County Road Commission.

NOTE A--REPORTING ENTITY

The Osceola County Road Commission, which is established pursuant to the County Road Law Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners and property taxes would be levied under the taxing authority of the county, as approved by the county board of commissioners. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Osceola County Road Commission, a discretely presented component unit of Osceola County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Osceola County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

Cash is considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Osceola County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB No. 34. The Osceola County Road Commission has capitalized the current year's infrastructure, as required by GASB No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007, as permitted by GASB No. 34.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief fiscal officer (road clerk) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing and subsequently adopts the operating budget. The board has authorized the fiscal officer to amend the Road Commission's budget, when necessary, by transferring up to \$50,000 from one line-item to another. The Road Commission's budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

MCL 129.91 authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated two banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 968,588
Investments	467
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$ 969,155</u></u>

The bank balance of the primary government's deposits is \$1,225,221, of which \$152,477 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

As of December 31, 2005, the Road Commission had the following investments:

	Reported Amount (Fair Value)
Investments	
Money Markets	<u>\$ 467</u>
Total Primary Government	<u><u>\$ 467</u></u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows at December 31, 2005:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Road Commission	<u>\$29,075</u>	Primary Government	<u>\$ 29,075</u>
Total Road Commission	<u><u>\$29,075</u></u>	Total Primary Government	<u><u>\$ 29,075</u></u>

NOTE F--CAPITAL ASSETS

A summary of changes in the Road Commission's capital assets are as follows:

	<u>Account Balances 01/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Account Balances 12/31/05</u>
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 65,662			\$ 65,662
Infrastructure Land Improvements	<u>4,275,492</u>	<u>\$ 780,003</u>		<u>5,055,495</u>
Subtotal	<u>4,341,154</u>	<u>780,003</u>	<u>\$ -</u>	<u>5,121,157</u>
Capital Assets Being Depreciated				
Buildings	635,119	4,021,555		4,656,674
Road Equipment	4,935,836	408,726	93,654	5,250,908
Shop Equipment	85,835	13,117	500	98,452
Office Equipment	30,615			30,615
Engineer's Equipment	35,016	503		35,519
Depletable Assets	196,825	30,000		226,825
Infrastructure--Bridges	397,555	67,979		465,534
Infrastructure--Roads	<u>2,052,228</u>	<u>370,552</u>		<u>2,422,780</u>
Subtotal	<u>8,369,029</u>	<u>4,912,432</u>	<u>94,154</u>	<u>13,187,307</u>
Less Accumulated Depreciation				
Building	352,162	11,512		363,674
Road Equipment	3,574,486	483,083	93,654	3,963,915
Shop Equipment	73,512	3,719	500	76,731
Office Equipment	25,463	1,011		26,474
Engineer's Equipment	14,646	4,283		18,929
Depletable Assets	195,880	1,768		197,648
Infrastructure--Bridges	12,061	13,246		25,307
Infrastructure--Roads	<u>96,505</u>	<u>272,275</u>		<u>368,780</u>
Total	<u>4,344,715</u>	<u>790,897</u>	<u>94,154</u>	<u>5,041,458</u>
Net Capital Assets Being Depreciated	<u>4,024,314</u>	<u>4,121,535</u>	<u>-</u>	<u>8,145,849</u>
Total Net Capital Assets	<u><u>\$ 8,365,468</u></u>	<u><u>\$ 5,692,435</u></u>	<u><u>\$ 790,897</u></u>	<u><u>\$ 13,267,006</u></u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 477,426
Indirect Equipment	
Shop Building	11,512
Shop Equipment	3,719
Net Administrative Expense	
Engineering	4,283
Office Equipment	1,011
Office Vehicles	5,657
Depletion Expense	1,768
Infrastructure Depreciation	<u>285,521</u>
Total Depreciation Expense	<u><u>\$ 790,897</u></u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Caterpillar Track-Type Tractor Model D4GXL \$67,895 Capital Lease Dated July 1, 2003	\$ 51,881	\$ (7,129)	\$ 44,752	\$ 7,390
Caterpillar Excavator Model 312CL \$92,095 Capital Lease Dated July 15, 2003	79,559	(10,449)	69,110	10,822
Two 2003 International Trucks \$212,000 Promissory Note Dated May 16, 2003, maturing serially through 2008 with quarterly installments of \$11,558 and an interest rate of 3.3%.	151,921	(41,730)	110,191	43,124
Two 2004 International Trucks \$180,000 Promissory Note Dated May 15, 2005, maturing serially through 2010 with quarterly installments of \$9,998 and an interest rate of 3.99%.		180,000 (16,509)	163,491	33,930
Two Road Commission Facilities \$3,750,000 Capital Lease Dated April 1, 2004, maturing serially through 2034 with biannual payments ranging from \$75,000 to \$225,000 and at an interest rate ranging from 3.0% to 4.875%.		3,750,000 (75,000)	3,675,000	75,000
Vested Employee Benefits Vacation and Sick Leave	<u>304,891</u>	<u>25,233</u>	<u>330,124</u>	
Totals	<u>\$588,252</u>	<u>\$ 3,804,416</u>	<u>\$4,392,668</u>	<u>\$ 170,266</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

A Caterpillar Track-Type Tractor Model D4GXL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$67,895, with 5 annual payments of \$9,181 and a \$30,888 balloon payment due in July 2008 at an implied interest rate of 3.99999%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Payable if Held to Maturity</u>
07/01/03	\$ 67,895	3.99999%	2006	\$ 7,390	\$ 1,791
			2007	7,685	1,495
			2008	<u>29,677</u>	<u>1,188</u>
			Total	<u>\$ 44,752</u>	<u>\$ 4,474</u>

A Caterpillar Excavator Model 312CL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$92,095, with 20 quarterly payments of \$3,291 and a \$41,691 balloon payment due in July 2008 at an implied interest rate of 3.5998%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
07/15/03	\$92,095	3.59980%	2006	\$ 10,822	\$ 2,343
			2007	11,217	1,948
			2008	<u>47,071</u>	<u>1,193</u>
			Total	<u>\$ 69,110</u>	<u>\$ 5,484</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Two 2003 International Trucks were purchased in May 2003 under a promissory note through Huntington Bank. The original purchase price was \$212,000, with 20 quarterly payments of \$11,558 at an interest rate of 3.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
05/15/03	\$212,000	3.3%	2006	\$ 43,124	\$ 3,106
			2007	44,565	1,665
			2008	<u>22,502</u>	<u>277</u>
			Total	<u>\$ 110,191</u>	<u>\$ 5,048</u>

Two International Tractors, Model 5900I, were purchased in May 2005 under a lease purchase agreement through Huntington National Bank. The original purchase price was \$180,000, with 20 quarterly payments of \$9,988 at an implied interest rate of 3.99%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
05/16/05	\$180,000	3.99000%	2006	\$ 33,930	\$ 6,022
			2007	35,304	4,647
			2008	36,734	3,217
			2009	38,221	1,729
			2010	<u>19,302</u>	<u>288</u>
			Total	<u>\$163,491</u>	<u>\$ 15,903</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

On September 1, 2004, the Osceola County Building Authority issued Building Authority Bonds, Series 2004, in the amount of \$3,750,000 for the purpose of constructing, furnishing and equipping two new facilities for the Osceola County Road Commission. The Road Commission has entered into a 30 year capital lease agreement as lessee for the financing of these two new facilities with Osceola County who leased the facilities from the Building Authority, after which time the possession of the leased premises shall vest in the Road Commission after the bonds are retired. The Road Commission is to operate and maintain the leased premises and keep them in good condition and repair.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
05/16/05	\$180,000	3.99%	2006	\$ 75,000	\$ 159,931
			2007	75,000	157,681
			2008	75,000	155,431
			2009	75,000	153,181
			2010	75,000	150,837
			2011-2015	425,000	711,905
			2016-2020	525,000	618,822
			2021-2025	650,000	491,333
			2026-2030	850,000	312,872
			2031-2034	850,000	85,313
			Total	<u>\$3,675,000</u>	<u>\$2,997,306</u>

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee at the beginning of each year, not to exceed a total accumulation of 44 days for union employees, 59 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of service, not to exceed a total accumulation of 125 days for any employee. Sick pay is payable at the following percentage when employees leave prior to retirement.

10 years of service	60 percent
5-10 years of service	40 percent
0-5 years of service	20 percent

Sick leave is payable at 100% at retirement or death.

Total accumulated vacation and sick leave has been recorded in the long-term debt. At December 31, 2005, the total vested vacation and sick leave benefits were \$72,365 and \$257,759, respectively.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Osceola County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for general and administration is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of the final average compensation (FAC) with a maximum benefit of 80% of the FAC for the general and administrative employees. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, MCL 46.12(a), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units. The employee contribution for the year ending December 31, 2004, was 1.5% of gross wages for general employees and 1.5% of gross wages for administrative employees. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 9.23% and 12.44% of annual compensation at December 31, 2002, for the general and administrative groups, respectively, of annual compensation.

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost was \$108,321 based on the actuarially determined rate for 2002. The employees contributed \$16,341 in accordance with the union and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)		Percentage Of APC Contributed	Net Pension Obligation
	Employer	Employee		
2002	\$ 90,394	\$ 19,357	100%	\$0
2003	104,017	17,276	100%	\$0
2004	108,321	16,341	100%	\$0

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded		Covered Payroll	UAAL as a Percent of Covered Payroll
			Actuarial Accrued Liability (UAAL)	Funded Ratio		
12/31/02	\$ 4,553,898	\$ 5,274,518	\$ 720,620	86%	\$ 1,142,640	63%
12/31/03	4,767,569	5,379,367	611,798	89%	1,136,216	54%
12/31/04	4,962,306	5,761,285	798,979	86%	1,065,505	75%

NOTE I--POST-EMPLOYMENT BENEFITS

Osceola County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The employer will pay all costs for Blue Cross/Blue Shield, including spouse, from the time the retiree is 62 years old until 65 years of age. After age 65, retirees must reimburse the employer for the cost of insurance. Employees that retire before age 62 may remain in the health group if they reimburse the employer for the cost of insurance.

Currently, 5 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission in 2005 totaled \$34,130, while reimbursements from retirees totaled \$13,880. The net cost to the Road Commission was \$20,250. The reason for the negative cost is retirees are allowed to pay early and the reimbursements are recognized when received while the expenditures are recognized as the insurance premiums become due.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) for claims relating to general and auto liability, auto physical damage and property loss claims. The Road Commission is self-insured through the County Road Association Self-Insurance Fund (CRASIF) for workers' compensation claims. The MCRCSIP operates as a claims servicing pool for amounts up to \$1,000,000 per member. Claims in excess of that amount up to \$10,500,000 would be covered by an excess insurance carrier. Although premiums are paid annually to the MCRCSIP (that it uses to pay claims up to the \$1,000,000 limit), the ultimate liability for those claims remain with the Road Commission. Amounts of settlements have not exceeded insurance coverage in the prior three years.

NOTE K--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

OSCEOLA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Weight Permits	\$ 10,000	\$ 10,000	\$ 10,025	\$ 25
Federal Grants				
Surface Transportation Program	144,000	-	-	-
Critical Bridge	280,000	-	-	-
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,151,000	2,060,000	2,065,066	5,066
Local Road	1,406,000	1,304,000	1,312,460	8,460
Snow Removal	25,000	27,594	27,595	1
Critical Bridge	52,500	-	-	-
Economic Development Funds				
Forest Funds (E)	50,000	50,000	50,000	-
Exchange of Federal Funds	375,000	481,000	481,838	838
Other State Grants		275,000	275,000	-
Contributions--Local Units				
Townships	335,000	427,000	429,774	2,774
Charges for Services				
Salvage Sales	1,000	1,000	1,454	454
Interest and Rents				
Interest Earned	10,000	10,000	16,864	6,864
Rental Income	2,500	33,000	34,099	1,099
Other Revenue				
Contributions From Private Sources	2,000	2,000	31,519	29,519
Reimbursements	-	30,399	30,399	-
Gain on Equipment Disposal	-	-	10,439	10,439
Total Revenue	4,854,000	4,720,993	\$ 4,786,532	\$ 65,539
Other Financing Sources				
Capital Lease Proceeds		3,750,000	3,750,000	-
Installment Lease Proceeds		180,000	180,000	-
Total Revenue and Other Financing Sources	4,854,000	8,650,993	<u>\$ 8,716,532</u>	<u>\$ 65,539</u>
Fund Balance--January 1, 2005	<u>1,244,569</u>	<u>1,239,001</u>		
Total Budget	<u>\$ 6,098,569</u>	<u>\$ 9,889,994</u>		

OSCEOLA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,225,749	\$ 540,185	\$ 536,382	\$ 3,803
Routine and Preventive Maintenance	1,410,000	940,000	928,539	11,461
Local Road				
Preservation/Structural Improvements	20,730	617,000	614,173	2,827
Routine and Preventive Maintenance	1,150,000	1,581,000	1,544,205	36,795
Primary Road Structure				
Preservation/Structural Improvements	-	564	564	-
Local Road Structure				
Preservation/Structural Improvements	389,000	79,000	67,415	11,585
Equipment Expense--Net	240,000	180,000		
Direct			\$ 948,896	
Indirect			322,064	
Operating			331,579	
Less: Equipment Rentals			(1,471,967)	49,428
Administrative Expense--Net	299,300	309,800		
Administrative Expense			301,196	
Less: Purchase Discounts			(280)	8,884
Capital Outlay--Net	135,000	3,990,399		
Capital Outlay			4,473,901	
Less: Depreciation Credits			(505,376)	
Equipment Retirements			-	21,874
Debt Service				
Principal Payments	309,300	150,900	150,817	83
Interest Expense	9,300	189,500	188,526	974
Total Expenditures	5,188,379	8,578,348	\$ 8,430,634	\$ 147,714
Fund Balance--December 31, 2005	910,190	1,311,646		
Total Budget	\$ 6,098,569	\$ 9,889,994		

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2005

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,786,779	\$1,903,256	\$ 96,497	\$ 4,786,532
Total Expenditures	1,634,126	2,483,313	4,313,195	8,430,634
Excess of Revenues Over (Under) Expenditures	1,152,653	(580,057)	(4,216,698)	(3,644,102)
Other Financing Sources (Uses)				
Capital Lease Proceeds			3,750,000	3,750,000
Installment Lease Proceeds			180,000	180,000
Optional Transfers	(621,354)	621,354		-
Total Other Financing Sources (Uses)	(621,354)	621,354	3,930,000	3,930,000
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	531,299	41,297	(286,698)	285,898
Fund Balance--January 1, 2005	641,336	-	597,665	1,239,001
Fund Balance--December 31, 2005	<u>\$1,172,635</u>	<u>\$ 41,297</u>	<u>\$ 310,967</u>	<u>\$ 1,524,899</u>

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended December 31, 2005

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Weight Permits			\$ 10,025	\$ 10,025
State Grants				
Michigan Transportation Fund				
Engineering	\$ 6,114	\$ 3,886		10,000
Allocation	2,065,066	1,312,460		3,377,526
Snow Removal		27,595		27,595
Exchange of Federal Funds	481,838			481,838
Other State Grants		275,000		275,000
Economic Development Fund				
Forest Funds (E)	50,000			50,000
Contributions--Local Units				
Townships	147,318	282,456		429,774
Charges for Services				
Salvage Sales			1,454	1,454
Interest and Rents				
Interest Earned	8,729		8,135	16,864
Rental Income			34,099	34,099
Other Revenue				
Contributions Form Private Sources	27,714	1,859	1,946	31,519
Reimbursements			30,399	30,399
Gain on Disposal of Equipment			10,439	10,439
Total Revenue	2,786,779	1,903,256	96,497	4,786,532
Other Financing Sources				
Capital Lease Proceeds			3,750,000	3,750,000
Installment Lease Proceeds			180,000	180,000
Total Revenues and Other Financing Sources	\$ 2,786,779	\$ 1,903,256	\$ 4,026,497	\$ 8,716,532

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 536,382			\$ 536,382
Routine and Preventive Maintenance	928,539			928,539
Local Road				
Preservation/Structural Improvements		\$ 614,173		614,173
Routine and Preventive Maintenance		1,544,205		1,544,205
Primary Road Structures				
Preservation/Structural Improvements	564			564
Local Road Structures				
Preservation/Structural Improvements		67,415		67,415
Equipment Expense--Net (Per Exhibit H)	49,173	76,072	\$ 5,327	130,572
Administrative Expense--Net (Per Exhibit H)	119,468	181,448		300,916
Capital Outlay--Net (Per Exhibit H)			3,968,525	3,968,525
Debt Service				
Principal Payments			150,817	150,817
Interest Payments			188,526	188,526
Total Expenditures	\$ 1,634,126	\$ 2,483,313	\$ 4,313,195	\$ 8,430,634



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 19, 2006

Osceola County Road Commission
Board of County Road Commissioners
800 South Chestnut Street
Reed City, Michigan 49677

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Osceola County Road Commission, a component unit of Osceola County, as of and for the year ended December 31, 2005, and have issued our report thereon dated April 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Osceola County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Osceola County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Osceola County Road Commission management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division